

MOSAIC DIVERSIFIED FUNDS
ANNUAL FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

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The Mosaic Diversified Funds consist of three separate schemes.

Foundation Assertive Fund
ARSN 115 121 661

Foundation Balanced Fund
ARSN 115 121 689

Foundation Conservative Fund
ARSN 115 121 796

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**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

The Directors of IOOF Investment Services Limited, the Responsible Entity of the Mosaic Diversified Funds, present this report together with the financial statements of the Mosaic Diversified Funds ('the Schemes'), for the year ended 30 June 2020 and the auditor's report thereon.

Principal activities

The Schemes are registered managed investment schemes domiciled in Australia.

During the year, the Schemes continued to invest funds in accordance with the following investment objectives:

- Foundation Assertive Fund principally invests in other registered managed investment schemes.
- Foundation Balanced Fund principally invests in other registered managed investment schemes.
- Foundation Conservative Fund principally invests in other registered managed investment schemes.

The investment objectives are as disclosed in the current Product Disclosure Statements and in accordance with the provisions of the Schemes' Constitutions.

On 29 November 2019, IOOF Investment Management Limited ("the former Responsible Entity") (ABN 53 006 695 021) was replaced by IOOF Investment Services Limited ("the Responsible Entity") (ABN 80 007 350 405) as the Responsible Entity for the Scheme.

The Schemes did not have any employees during the year (2019: Nil).

Responsible Entity

The following persons held office as Directors of IOOF Investment Services Limited during the year and up to the date of this report:

Ms D.G Allen (Chairman) (Appointed 19 December 2019)
Ms M.A Nunan (Appointed 19 December 2019)
Mr J. Selak (Appointed 19 December 2019)
Mr A.R Griffiths (Resigned 20 December 2019)
Mr R.G Mota (Resigned 20 December 2019)
Ms J.M Harvey (Resigned 20 December 2019)

Review of operations

During the year, the Schemes continued to invest in accordance with target asset allocations as set out in the governing documents of the Schemes and in accordance with the provisions of the Schemes' Constitutions.

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

DIRECTORS' REPORT (continued)

Results

The performance of the Schemes, as represented by the results of their operations, were as follows:

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total comprehensive income	(2,103)	2,833	(2,530)	3,972	(282)	938
Distributions						
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Distributions paid and payable						
31 December paid	241	398	290	600	49	193
30 June final payable	919	2,119	1,092	2,589	228	603
	<u>1,160</u>	<u>2,517</u>	<u>1,382</u>	<u>3,189</u>	<u>277</u>	<u>796</u>
	CPU	CPU	CPU	CPU	CPU	CPU
Distributions						
31 December paid	0.79	1.17	0.59	1.09	0.28	0.90
30 June final payable	3.15	6.53	2.27	5.01	1.38	3.08
	<u>3.94</u>	<u>7.70</u>	<u>2.86</u>	<u>6.10</u>	<u>1.66</u>	<u>3.98</u>

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

DIRECTORS' REPORT (continued)

Performance

The table below demonstrates the performance of the Schemes as represented by the total return per annum, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total return per annum calculated after fees is shown for the past two years to 30 June and assumes that all distributions were re-invested during that period. These are calculated in accordance with FSC standard 6.0 Product Performance - Calculation of Returns. The comparison to benchmark performance for the past two years to 30 June is also shown below:

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %
Capital growth	(9.36)	0.88	(6.75)	1.17	(3.30)	0.60
Distribution	3.08	6.34	2.39	5.33	1.65	4.07
Total return	-6.28	7.22	-4.36	6.50	-1.65	4.67
Benchmark return	-2.89	6.79	-1.72	6.48	-0.14	5.45
Benchmark name	Composite		Composite		Composite	

Consistent with our statements in the current Product Disclosure Statement, future performance is not guaranteed. Investors should exercise care in using past performance as a predictor of future performance.

Indirect Cost Ratio

The indirect cost ratios of the Schemes are shown as follows:

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %
Indirect Cost Ratio	0.59	0.60	0.58	0.58	0.58	0.58

The costs are calculated on the net asset value of the Schemes and are deducted from the assets of the Schemes. The costs are accrued daily and paid monthly and are incorporated into the daily unit prices of the Schemes. The indirect cost ratio calculation includes investment management fees charged to the Schemes during the financial year, including those charged by the Responsible Entity directly for the management of the assets and performance fees charged by the investment manager when the scheme outperforms the benchmark.

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

DIRECTORS' REPORT (continued)

Significant changes in state of affairs

On 29 November 2019, IOOF Investment Management Limited ("the former Responsible Entity")(ABN 53 006 695 021) was replaced by IOOF Investment Services Limited ("the Responsible Entity") (ABN 80 007 350 405) as the Responsible Entity for the Scheme.

Other than the above, there were no significant changes in the state of affairs of the Scheme.

Matters subsequent to the end of the financial year

The existence of COVID-19 was confirmed in early 2020 and in March 2020 was declared a pandemic by the World Health Organisation. This has resulted in significant volatility in global and domestic financial markets. Refer to Note 11 for the sensitivity analysis of risks.

At the date of signing of the financial statements, there is still significant uncertainty on the likely duration and the ultimate impact COVID-19 will have on world economies. Given the high degree of estimation uncertainty, management cannot reasonably assess or quantify the potential short or longer term financial impact on the Scheme.

Except as disclosed above, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- (i) the operations of the Schemes in future financial years;
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Schemes in future financial years.

Likely developments and expected results of operations

The Schemes will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Schemes and in accordance with the provisions of the Schemes' Constitutions.

The results of the Schemes' operations will be affected by a number of factors, including the performance of markets in which the Schemes invest. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Schemes.

Indemnification and insurance of officers and auditors

There is a Directors' and Officers' insurance policy which indemnifies the Directors and Officers of IOOF Investment Services Limited against liabilities to persons outside IOOF Investment Services Limited that arise out of the performance of their normal duties. The premiums have not been paid for out of the assets of the Schemes. The auditor of the Schemes is in no way indemnified out of the assets of the Schemes.

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

DIRECTORS' REPORT (continued)

Fees paid to and interests held in the Schemes by the Responsible Entity or its Related Parties

Details of fees paid to the Responsible Entity during the financial year are disclosed in Note 5 of the financial statements.

No fees were paid out of Scheme's property to the Directors of the Responsible Entity during the year.

The interests in the Schemes held by the Responsible Entity or its related parties during the financial year are disclosed in Note 5 of the financial statements.

Interests in the Scheme

Details of movement in net assets attributable to unitholders and total units on issue are disclosed in Note 8 of the financial statements.

The basis for valuation of the Scheme's assets is disclosed in Note 2 of the financial statements

Environmental regulation

The operations of the Schemes are not subject to any significant environmental regulation under a Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand dollars

Amounts in the Directors' report and financial statements for the Schemes have been rounded to the nearest thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191, unless otherwise stated.

Lead auditor's independence declaration

The lead auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 6 and forms part of the Directors' Report for the year ended 30 June 2020.

Signed in accordance with a resolution of the Directors of IOOF Investment Services Limited.

On behalf of the Directors,



Ms D.G Allen
Director

Melbourne, 26 August 2020



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of IOOF Investment Services Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Foundation Assertive Fund, Foundation Balanced Fund and Foundation Conservative Fund for the financial year ended 30 June 2020 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG



Rachel Milum

Partner

Melbourne

26 August 2020



Independent Auditor's Report

To the unitholders of the Mosaic Diversified Funds:

*Foundation Assertive Fund;
Foundation Balanced Fund; and*

*Foundation Conservative Fund
(collectively "the Schemes")*

Opinion

We have audited the **Financial Report** of the Schemes.

In our opinion, the accompanying Financial Report of the Schemes is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Schemes' financial position as at 30 June 2020, and of their financial performance and their cash flows for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Statements of financial position as at 30 June 2020;
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Schemes in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



Other Information

Other Information is financial and non-financial information in the Schemes' annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of IOOF Investment Services Limited (the Responsible Entity) are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of IOOF Investment Services Limited (the Responsible Entity) are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Schemes' ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Schemes or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

Rachel Milum

Partner

Melbourne

26 August 2020

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

The Directors of IOOF Investment Services Limited, the Responsible Entity of the Mosaic Diversified Funds ('the Schemes') declare that:

- (a) the financial statements and notes set out on pages 14 to 39 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Schemes' financial position as at 30 June 2020 and of their performance for the year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a); and
- (c) there are reasonable grounds to believe that the Schemes will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors of IOOF Investment Services Limited.

On behalf of the Directors,



Ms D.G Allen
Director

Melbourne, 26 August 2020

**MOSAIC DIVERSIFIED FUNDS
STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Note	Foundation Assertive Fund Year ended		Foundation Balanced Fund Year ended		Foundation Conservative Fund Year ended	
		30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000
<u>Investment Income</u>							
Trust distribution income		916	1,186	1,264	1,727	276	499
Interest income from financial assets held at amortised cost	3	4	11	3	11	2	7
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	(2,925)	1,742	(3,643)	2,401	(509)	493
Total investment income/(loss)		<u>(2,005)</u>	<u>2,940</u>	<u>(2,376)</u>	<u>4,139</u>	<u>(231)</u>	<u>999</u>
<u>Expenses</u>							
Responsible Entity fees	5	98	107	154	167	51	61
Total operating expenses		<u>98</u>	<u>107</u>	<u>154</u>	<u>167</u>	<u>51</u>	<u>61</u>
Operating profit/(loss)		<u>(2,103)</u>	<u>2,833</u>	<u>(2,530)</u>	<u>3,972</u>	<u>(282)</u>	<u>938</u>
Profit/(loss) for the year		<u>(2,103)</u>	<u>2,833</u>	<u>(2,530)</u>	<u>3,972</u>	<u>(282)</u>	<u>938</u>
Other Comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		<u>(2,103)</u>	<u>2,833</u>	<u>(2,530)</u>	<u>3,972</u>	<u>(282)</u>	<u>938</u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

MOSAIC DIVERSIFIED FUNDS
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
		30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000
<u>Assets</u>							
Cash and cash equivalents	12(a)	566	484	511	201	276	285
Receivables		577	1,597	729	1,060	118	282
Financial assets held at fair value through profit or loss	6	32,944	41,390	52,848	62,484	15,857	19,553
Total assets		<u>34,087</u>	<u>43,470</u>	<u>54,088</u>	<u>63,745</u>	<u>16,251</u>	<u>20,120</u>
<u>Liabilities</u>							
Distributions payable	7	919	2,119	1,092	2,589	228	603
Other payables		13	766	54	114	47	5
Total liabilities		<u>932</u>	<u>2,885</u>	<u>1,146</u>	<u>2,703</u>	<u>275</u>	<u>608</u>
Net assets attributable to unitholders - Equity	8	<u>33,155</u>	<u>40,586</u>	<u>52,942</u>	<u>61,041</u>	<u>15,976</u>	<u>19,512</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**MOSAIC DIVERSIFIED FUNDS
STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Note	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
		30 June 2020 \$000	30 June 2019 \$000	30 June 2020 \$000	30 June 2019 \$000	30 June 2020 \$000	30 June 2019 \$000
Total equity at the beginning of the year		40,586	39,938	61,041	63,870	19,512	22,278
Comprehensive income for the year							
Profit/(loss) for the year		(2,103)	2,833	(2,530)	3,972	(282)	938
Total comprehensive income for the year		<u>(2,103)</u>	<u>2,833</u>	<u>(2,530)</u>	<u>3,972</u>	<u>(282)</u>	<u>938</u>
Transactions with unitholders							
Applications	8	4,864	9,275	6,560	10,404	1,390	2,813
Redemptions	8	(9,041)	(8,962)	(10,748)	(14,018)	(4,368)	(5,721)
Reinvested distributions	8	9	19	1	2	-	-
Distributions paid and payable	7,8	(1,160)	(2,517)	(1,382)	(3,189)	(277)	(796)
Total transactions with unitholders		<u>(5,328)</u>	<u>(2,185)</u>	<u>(5,569)</u>	<u>(6,801)</u>	<u>(3,255)</u>	<u>(3,704)</u>
Total equity at the end of the year		<u>33,155</u>	<u>40,586</u>	<u>52,942</u>	<u>61,041</u>	<u>15,975</u>	<u>19,512</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**MOSAIC DIVERSIFIED FUNDS
STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Note	Foundation Assertive Fund Year ended		Foundation Balanced Fund Year ended		Foundation Conservative Fund Year ended	
		30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
		\$'000 Inflows/ (Outflows)	\$'000 Inflows/ (Outflows)	\$'000 Inflows/ (Outflows)	\$'000 Inflows/ (Outflows)	\$'000 Inflows/ (Outflows)	\$'000 Inflows/ (Outflows)
Cash flows from operating activities							
Proceeds from the sale of financial instruments held at fair value through profit or loss		9,676	8,773	9,719	14,745	3,957	6,109
Payments for the purchase of financial instruments held at fair value through profit or loss		(2,220)	(5,783)	(2,132)	(5,572)	(331)	(1,874)
Interest received		4	11	3	11	2	7
Operating expenses paid		(98)	(107)	(154)	(169)	(52)	(62)
Net cash inflow/(outflow) from operating activities	12(b)	<u>7,362</u>	<u>2,894</u>	<u>7,436</u>	<u>9,015</u>	<u>3,576</u>	<u>4,180</u>
Cash flows from financing activities							
Proceeds from application of units		4,772	9,186	6,560	10,404	1,391	2,813
Payments for redemption of units		(9,701)	(8,599)	(10,808)	(14,096)	(4,324)	(5,721)
Distributions paid		(2,351)	(3,882)	(2,878)	(5,716)	(652)	(1,375)
Net cash inflow/(outflow) from financing activities		<u>(7,280)</u>	<u>(3,295)</u>	<u>(7,126)</u>	<u>(9,408)</u>	<u>(3,585)</u>	<u>(4,283)</u>
Net increase/(decrease) in cash and cash equivalents		82	(401)	310	(393)	(9)	(103)
Cash and cash equivalents at the beginning of the financial year		484	885	201	594	284	387
Cash and cash equivalents at the end of the financial year	12(a)	<u><u>566</u></u>	<u><u>484</u></u>	<u><u>511</u></u>	<u><u>201</u></u>	<u><u>275</u></u>	<u><u>284</u></u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 1: General information

This financial report covers Mosaic Diversified Funds ('the Schemes') as individual entities. The Schemes are registered managed investment schemes under the *Corporations Act 2001*.

Scheme information

The Schemes are Australian registered schemes.

Scheme Name	Date of Commencement	Date of Termination
Foundation Assertive Fund	4 July 2005	3 July 2085
Foundation Balanced Fund	4 July 2005	3 July 2085
Foundation Conservative Fund	4 July 2005	3 July 2085

The Responsible Entity of the Schemes is IOOF Investment Services Limited. The Responsible Entity's registered office is Level 6, 161 Collins Street, Melbourne, VIC 3000. The Responsible Entity's ABN number is 80 007 350 405.

On 29 November 2019, IOOF Investment Management Limited ("the former Responsible Entity") (ABN 53 006 695 021) was replaced by IOOF Investment Services Limited ("the Responsible Entity") (ABN 80 007 350 405) as the Responsible Entity for the Scheme.

The financial statements were authorised for issue by the Directors on 26 August 2020. The Directors of the Responsible Entity have the power to amend and reissue the financial report as considered necessary under the Schemes' Constitutions.

Note 2: Summary of significant accounting policies

The principal accounting policies applied in the preparation of this financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text:

(a) Basis of preparation

The financial report is a general purpose financial report for the year ended 30 June 2020 which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial report of the Schemes complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standard Board (IASB).

The Statement of Financial Position is prepared on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within twelve months, except for financial assets at fair value through profit or loss and net assets attributable to unitholders.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 2: Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Recognition, derecognition and initial measurement

The Scheme initially recognises financial assets and financial liabilities at fair value through profit or loss on the trade date, which is the date on which the Scheme becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

(ii) Classification and subsequent measurement

On initial recognition, the Scheme classifies financial assets as measured at amortised cost or fair value through profit or loss.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

All other financial assets of the Scheme are measured at fair value through profit or loss.

Business model assessment

In making an assessment of the objective of the business model in which a financial asset is held, the Scheme considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Scheme's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Scheme has determined that it has two business models:

- Held to collect business model: this includes cash and cash equivalents, term deposits, balances due from brokers and receivables from reverse sale and repurchase agreements. These financial assets are held to collect contractual cash flow.
- Other business model: this includes debt securities, equity investments, investments in unlisted open-ended investment Schemes, unlisted private equities and derivatives. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

Financial assets are not reclassified subsequent to their initial recognition unless the Scheme were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 2: Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

Subsequent measurement of financial assets

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are recognised as 'net gains/(losses) on financial instruments held at fair value through profit or loss' in the Statement of Comprehensive Income.

Debt securities, equity investments, investments in unlisted open ended investment Schemes, unlisted private equities and derivative financial instruments are included in this category.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. Interest income is recognised in 'Interest income from financial assets at amortised cost', foreign exchange gains and losses are recognised in 'net foreign exchange loss' and impairment is recognised in 'impairment losses on financial instruments' in the statement of comprehensive income. Any gain or loss on derecognition is also recognised in profit or loss.

Cash and cash equivalents, balances due from brokers, term deposit and receivables from reverse sale and repurchase agreements are included in this category.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or fair value through profit and loss.

A financial liability is classified as at fair value through profit and loss if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at fair value through profit and loss are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at fair value through profit and loss:

- Held for trading: securities sold short and derivative financial instruments.

Financial liabilities at amortised cost:

- This includes balances due to brokers, payables under sale and repurchase agreements and redeemable shares.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 2: Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Scheme has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Scheme measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Scheme measures instruments quoted in an active market at a mid price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Scheme uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Scheme recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

The following represent the basis for valuation of financial assets and liabilities designated at fair value through profit or loss for financial reporting purposes:

● **Units in Unlisted Managed Investment Schemes**

The fair value of units in unlisted schemes is the NAV price per unit on the last day of the period, as determined by the Schemes' Responsible Entity. The NAV price is calculated by deducting the liabilities of the Scheme from the gross assets of the Scheme, less an allowance for disposal costs.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the Schemes' financial statements are measured using the currency of the primary economic environment in which they operate ('the functional currency'). This is the Australian dollar, which reflects the currency of the economy in which the Schemes compete for funds and is regulated. The Australian dollar is also the Schemes' presentation currency.

(d) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be put back to the Schemes at any time for cash based on the redemption price, which is equal to a proportionate share of the Schemes net asset value attributable to the unitholders.

The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put the units back to the Schemes. This amount represents the expected cash flows on redemption of these units.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 2: Summary of significant accounting policies (continued)

(d) Net assets attributable to unitholders (continued)

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Schemes' liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Schemes, and it is not a contract settled in the Schemes' own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

(e) Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than investment or other purposes. Bank overdrafts are shown in current liabilities on the Statement of Financial Position but are included within cash and cash equivalents for cash flow purposes.

(f) Investment income and expenses

Interest income and expense from financial assets at amortised cost is calculated on an effective interest basis and includes interest from cash and cash equivalents and interest from term deposits. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Interest income from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

Dividend income relating to exchange-traded equity instruments is recognised in the Statement of Comprehensive Income on the ex-dividend date with any related foreign withholding tax recorded as an expense. Dividends declared on securities sold short is accrued on the ex-dividend date and are recognised as a dividend in the Statement of Comprehensive Income. Income distributions from private equity investments and other managed investment schemes are recognised in the Statement of Comprehensive Income as trust distribution income when declared.

In some cases, the Schemes may receive or choose to receive dividends or distributions in the form of additional shares/units rather than cash. In such cases, the Schemes recognise the dividend or distribution income for the amount of the cash/dividend alternative with the corresponding debit treated as additional investments.

All expenses, including Responsible Entity fees, performance fees and investment management fees, are recognised in the Statement of Comprehensive Income on an accrual basis.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 2: Summary of significant accounting policies (continued)

(g) Distributions

Distributions are payable as set out in the Scheme's Product Disclosure Statement. Distributions are determined by the Responsible Entity in accordance with the Scheme's Constitution and applicable tax legislation. Distributable income includes realised capital gains on the disposal of financial instruments held at fair value through profit and loss and those held for trading. Unrealised gains and losses on these instruments recognised in net income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained in the Scheme to be offset against future realised capital gains. If capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign taxes paid are passed on to unitholders.

The Schemes currently incur withholding tax imposed by certain countries on investment income. Income that is subject to such tax is recognised gross of the taxes and the corresponding withholding tax is recognised as tax expense.

(h) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in Note 2(f). Amounts are generally received within 30 days of being recorded as receivables.

Amounts due from brokers which represent receivables that have been contracted for but not yet delivered by the end of the year are included in receivables. Trades are recorded on trade date and normally settled within two business days. Amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Scheme shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses subject to a significant increase in credit risk since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the loss allowance is measured on a 12-month expected credit loss basis. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that a loss allowance should be recognised. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 2: Summary of significant accounting policies (continued)

(i) Payables

Payables includes liabilities and accrued expenses owing by the Schemes which are unpaid as at the reporting date. Amounts due to brokers which represent payables for securities purchased that are unsettled at reporting date are included in payables.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the Statements of Financial Position as unitholders are presently entitled to the distributable income as at 30 June 2020 under the Schemes' Constitutions.

(j) Applications and redemptions

Applications received for units in the Schemes are recorded net of any entry fees payable prior to the issue of units in the Schemes.

All redeemable units issued by the Schemes provide the investors with the right to require redemption for cash and give rise to a financial liability. In accordance with the Product Disclosure Statement, the Schemes are contractually obliged to redeem units at redemption price, which includes an allowance for transaction costs that would be incurred by the Schemes on disposal of its assets required to fund the redemptions. As a result of the transaction cost factor, there will be a difference between the carrying amount of the net assets of the Schemes (excluding the unitholders' funds classified as a financial liability) and the contractual amount payable to unitholders which is based on the redemption price.

(k) Unit prices

The unit price is based on unit price accounting outlined in the Schemes' Constitutions and Product Disclosure Statement.

(l) Goods and services tax (GST)

Management fees, custodial fees and other expenses are recognised net of the amount of GST recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC). Payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(m) Use of estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

For the majority of the Schemes' financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using other valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 2: Summary of significant accounting policies (continued)

(m) Use of estimates (continued)

Where investments are held at Level 3, models use observable market data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

Note 10 Financial Instruments contains information about the estimation of fair values of financial instruments.

(n) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

(o) Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statements of Financial Position when, and only when, the Schemes have a legal right to offset the amounts and they intend either to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under AASBs, e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit and loss.

(p) Changes in accounting policies

There were no changes in the accounting policies of the Scheme during the year.

(q) New and amended accounting standards adopted by the Scheme

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year commencing on 1 July 2019 that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

(r) New standards and interpretations not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2020 reporting period and have not been early adopted by the Scheme. None of these are expected to have a material impact on the financial statements of the Scheme.

(s) Rounding

The Schemes are entities of the kind referred to in Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 3: Interest income from financial assets held at amortised cost

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Interest income from financial assets held at amortised						
Cash and cash equivalents	4	11	3	11	2	7
Total interest income from financial assets held at amortised cost	4	11	3	11	2	7

Note 4: Net gains/(losses) on financial instruments held at fair value through profit or loss

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Net gains/(losses) on financial instruments held at fair value through profit or loss	(2,925)	1,742	(3,643)	2,401	(509)	493
Total net gains/(losses) on financial instruments held at fair value through profit or loss	(2,925)	1,742	(3,643)	2,401	(509)	493

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 5: Related party transactions

Responsible Entity

The Responsible Entity of the Mosaic Diversified Funds is IOOF Investment Services Limited.

On 29 November 2019, IOOF Investment Management Limited ("the former Responsible Entity") (ABN 53 006 695 021) was replaced by IOOF Investment Services Limited ("the Responsible Entity") (ABN 80 007 350 405) as the Responsible Entity for the Scheme.

The immediate parent entity and the ultimate controlling entity of IOOF Investment Services Limited is IOOF Holdings Ltd.

Key management personnel

Key management personnel includes persons who are Directors of IOOF Investment Services Limited during this reporting period and up to the date of this report:

Ms D.G Allen (Chairman) (Appointed 19 December 2019)
Ms M.A Nunan (Appointed 19 December 2019)
Mr J. Selak (Appointed 19 December 2019)
Mr A.R Griffiths (Resigned 20 December 2019)
Mr R.G Mota (Resigned 20 December 2019)
Ms J.M Harvey (Resigned 20 December 2019)

Responsible Entity fees and other transactions

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Responsible Entity fees IOOF Investment Services Limited	55	-	87	-	28	-
Responsible Entity fees IOOF Investment Management Limited	43	107	67	167	23	61
Total Responsible Entity fees	98	107	154	167	51	61
Responsible Entity fees payable	9	9	14	14	3	5

Under the terms of the Schemes' Constitutions, the Responsible Entity is entitled to receive maximum management fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Schemes as follows:

Foundation Assertive Fund 0.26% per annum (2019: 0.26%)
Foundation Balanced Fund 0.26% per annum (2019: 0.26%)
Foundation Conservative Fund 0.29% per annum (2019: 0.29%)

Related party schemes' unitholdings

IOOF Investment Services Limited, its related parties and other schemes managed by IOOF Investment Services Limited did not hold any units in the Schemes as at 30 June 2020 (2019: Nil).

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

Note 5: Related party transactions (continued)

Investments

The Schemes held investments in the following schemes of which IOOF Investment Services Limited is the Responsible Entity or its related parties:

	Fair value of Investment		Foundation Assertive Fund Interest Held		Distribution received/receivable	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	%	%	\$'000	\$'000
Strategic Australian Equity Fund	13,142	16,557	0.64	0.66	591	879
Strategic Fixed Interest Fund	5,348	6,289	0.26	0.29	58	137
Strategic Global Property Fund	2,952	4,140	0.38	0.47	109	89
Strategic International Equity Fund	10,113	12,822	0.56	0.68	141	48
Strategic Cash Plus Fund	1,389	1,582	0.55	0.55	17	33
	<u>32,944</u>	<u>41,390</u>			<u>916</u>	<u>1,186</u>

	Fair value of Investment		Foundation Balanced Fund Interest Held		Distribution received/receivable	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	%	%	\$'000	\$'000
Strategic Australian Equity Fund	16,000	18,763	0.77	0.75	698	1,003
Strategic Fixed Interest Fund	16,383	18,893	0.79	0.87	182	418
Strategic Global Property Fund	4,778	6,078	0.62	0.69	176	131
Strategic International Equity Fund	10,446	12,850	0.58	0.68	145	48
Strategic Cash Plus Fund	5,241	5,900	2.07	2.04	64	127
	<u>52,848</u>	<u>62,484</u>			<u>1,265</u>	<u>1,727</u>

	Fair value of Investment		Foundation Conservative Fund Interest Held		Distribution received/receivable	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	%	%	\$'000	\$'000
Strategic Australian Equity Fund	2,371	2,958	0.11	0.12	103	164
Strategic Fixed Interest Fund	8,170	9,963	0.39	0.46	88	226
Strategic Global Property Fund	716	960	0.09	0.11	26	21
Strategic International Equity Fund	1,609	2,015	0.09	0.11	22	8
Strategic Cash Plus Fund	2,990	3,658	1.18	1.27	36	81
	<u>15,856</u>	<u>19,554</u>			<u>276</u>	<u>499</u>

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 5: Related party transactions (continued)

Key management personnel compensation

Key management personnel are remunerated by IOOF Service Co Pty Ltd, a related party of IOOF Investment Services Limited. Payments made from the Schemes to IOOF Investment Services Limited do not include any amount that is directly attributable to key management personnel remuneration.

Key management personnel loan disclosures

The Schemes have not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related parties at any time during the reporting period.

Other transactions within the Schemes

Apart from those details disclosed in this Note, no key management personnel have entered into a material contract with the Schemes since the end of the previous financial year and there were no material contracts involving Directors interests subsisting at year end.

Key management personnel unitholdings

At 30 June 2020 and 30 June 2019, no Directors of the Responsible Entity held units in the Schemes.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 6: Financial assets held at fair value through profit or loss

	Foundation Assertive Fund Year ended		Foundation Balanced Fund Year ended		Foundation Conservative Fund Year ended	
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000
Held at fair value through profit or loss						
Unlisted unit trusts	32,944	41,390	52,848	62,484	15,857	19,553
Total held at fair value through profit or loss	32,944	41,390	52,848	62,484	15,857	19,553
Total financial assets held at fair value through profit or loss	32,944	41,390	52,848	62,484	15,857	19,553
Unlisted unit trusts						
Units in unlisted unit trusts	32,944	41,390	52,848	62,484	15,857	19,553
Total unlisted unit trusts	32,944	41,390	52,848	62,484	15,857	19,553
Total financial assets held at fair value through profit or loss	32,944	41,390	52,848	62,484	15,857	19,553

Note 7: Distributions paid and payable

The distributions paid and payable during the year were as follows:

	Foundation Assertive Fund Year ended				Foundation Balanced Fund Year ended			
	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU
31 December paid	241	0.79	398	1.17	290	0.59	600	1.09
30 June final payable	919	3.15	2,119	6.53	1,092	2.27	2,589	5.01
	1,160	3.94	2,517	7.70	1,382	2.86	3,189	6.10
	Foundation Conservative Fund Year ended							
	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU				
31 December paid	49	0.28	193	0.90				
30 June final payable	228	1.38	603	3.08				
	277	1.66	796	3.98				

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

Note 8: Net assets attributable to unitholders

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Schemes shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

The Scheme's distributions are classified as distributions in the Statement of Changes in Equity.

Movements in number of units and net assets attributable to unitholders during the year were as follows:

	Foundation Assertive Fund				Foundation Balanced Fund			
	30 June 2020		30 June 2019		30 June 2020		30 June 2019	
	No. of units '000	\$'000	No. of units '000	\$'000	No. of units '000	\$'000	No. of units '000	\$'000
Opening balance	32,439	40,586	32,174	39,938	51,656	61,041	54,648	63,870
Applications	3,926	4,864	7,448	9,275	5,570	6,560	8,906	10,404
Reinvested distributions	7	9	16	19	1	1	2	2
Redemptions	(7,145)	(9,041)	(7,199)	(8,962)	(9,211)	(10,748)	(11,900)	(14,018)
Distributions paid and payable	-	(1,160)	-	(2,517)	-	(1,382)	-	(3,189)
Total comprehensive income	-	(2,103)	-	2,833	-	(2,530)	-	3,972
Closing Balance	<u>29,227</u>	<u>33,155</u>	<u>32,439</u>	<u>40,586</u>	<u>48,016</u>	<u>52,942</u>	<u>51,656</u>	<u>61,041</u>
	Foundation Conservative Fund							
	30 June 2020		30 June 2019					
	No. of units '000	\$'000	No. of units '000	\$'000				
Opening balance	19,560	19,512	22,457	22,278				
Applications	1,384	1,390	2,819	2,813				
Redemptions	(4,398)	(4,368)	(5,716)	(5,721)				
Distributions paid and payable	-	(277)	-	(796)				
Total comprehensive income	-	(282)	-	938				
Closing Balance	<u>16,546</u>	<u>15,975</u>	<u>19,560</u>	<u>19,512</u>				

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 8: Net assets attributable to unitholders (Continued)

As stipulated within the Schemes' Constitutions, each unit represents a right to an individual share in the Schemes and does not extend to a right to the underlying assets of the Schemes. There are no separate classes of units and each unit has the same rights attached to it as all other units of the Schemes. Units are issued and redeemed at the unitholder's option at prices based on the value of the Schemes' net assets at the time of issue/redemption less transaction costs.

Capital risk management

The Scheme manages its net assets attributable to unitholders (including distribution payable) as capital. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

The Scheme monitors the level of daily applications and redemptions relative to the liquid assets in the Scheme. During the year, the Scheme's strategy, which was unchanged from last year, was to ensure that there was no significant exposure to illiquid or thinly traded financial instruments.

Note 9: Derivative financial instruments

In the normal course of business, the Schemes may enter into transactions in various derivative financial instruments. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variables.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have similar responses to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as forwards, futures, interest rate swaps and options. Derivatives are considered to be part of the investment process. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio occurs if the level of exposure to the markets exceeds the

As at 30 June 2020 and 30 June 2019, the Schemes did not hold any derivative financial instruments.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

Note 11: Financial risk management

Strategy in using financial instruments

The Schemes are exposed to a variety of financial risks: credit risk, liquidity risk, market risk (including price risk, foreign exchange risk and interest rate risk) arising from the financial instruments they hold.

As a result of the economic downturn and more specifically COVID-19, the Scheme increased its overall risk management practices. The Scheme incorporated a greater focus on asset allocation and increased its monitoring of liquidity. This was achieved via expanded supervision and reporting of member/unit holder redemptions to avoid any significant volatility in cashflows.

The Schemes' overall risk management program focuses on ensuring compliance with the Schemes' governing documents and seeks to maximise the returns derived for the level of risk to which the Schemes are exposed. As part of their risk management strategy, the Schemes may also utilise a range of derivative financial instruments to manage certain risk exposures.

The Responsible Entity via the Investment Manager assesses the risk profile before entering into economic hedge transactions. The effectiveness of all hedge relationships is monitored by the Investment Manager (based on economic consideration rather than IFRS hedge accounting conditions) on a daily basis.

More details about risk management policies employed by the Schemes to manage financial risks are discussed below.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Schemes, resulting in a financial loss to the Schemes.

The Schemes are exposed to concentrations of risk when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved; and
- ensuring that transactions are undertaken with a large number of counterparties (either directly or indirectly).

The Schemes' Responsible Entity also manages credit risk by ensuring that a diversified portfolio of securities is held and that the Schemes do not invest in securities that are considered to be rated sub investment grade by a recognised rating agency.

The Schemes had no significant concentrations of credit risk exposure to counterparties at 30 June 2020 and 30 June 2019.

As at 30 June 2020 and 30 June 2019, there are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

Credit risk is not considered to be significant to the Schemes except in relation to investments in debt securities. The Schemes do not have any investments in debt securities at 30 June 2020 and 30 June 2019.

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Note 11: Financial risk management (continued)

Liquidity and cash flow risk

Liquidity risk is the risk that the Schemes will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Schemes. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate.

The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market

In accordance with the Schemes' policy, the Responsible Entity via the Investment Manager monitors the Schemes' liquidity position on a continuous basis.

Financial liabilities of the Schemes comprise distributions payable, other payables, and net assets attributable to unitholders. Distributions payable and other payables have no contractual maturities but are typically settled within 30 days. Net assets attributable to unitholders are payable on demand.

Liquidity risk is not considered to be significant to the Scheme(s) at 30 June 2020 and 30 June 2019.

Market risk

Market risk is the risk that the changes in market prices such as foreign exchange rates, interest rates, equity prices and credit spreads will affect the Schemes' income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Schemes' Responsible Entity aims to reduce market risk through analysis of the economic cycle and broad research of companies and markets, which may impact the Schemes' investments. In addition, the Responsible Entity, within asset allocation ranges, reduces exposure to sectors they perceive to be overvalued in favour of sectors which they believe have the prospect of better relative returns.

In accordance with the Scheme's policy, the Responsible Entity via the Investment Manager monitors the Scheme's market risk on a daily basis and the Directors of the Responsible Entity review it on a quarterly basis.

The effect on the net assets attributable to unitholders and profit or loss due to a reasonably possible change in market factors, as represented by the market index, with all other variables held constant, is indicated in the table below.

Except as disclosed in Note 5, the Scheme had no significant concentration of market risk exposure to counterparties at 30 June 2020 and 30 June 2019.

	Foundation Assertive Fund							
	30 June 2020				30 June 2019			
	Change in price		Effect on net assets attributable to unitholders and profit or loss		Change in price		Effect on net assets attributable to unitholders and	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Market Index	%	%	\$'000	\$'000	%	%	\$'000	\$'000
Composite	20	(10)	6,589	(3,294)	20	(9)	8,278	(3,725)

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Note 11: Financial risk management (continued)

	Foundation Balanced Fund							
	30 June 2020				30 June 2019			
	Change in price		Effect on net assets attributable to unitholders and profit or loss		Change in price		Effect on net assets attributable to unitholders and	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
%	%	\$'000	\$'000	%	%	\$'000	\$'000	
Market Index								
Composite	16	(8)	8,455	(4,439)	16	(7)	9,997	(4,374)

	Foundation Conservative Fund							
	30 June 2020				30 June 2019			
	Change in price		Effect on net assets attributable to unitholders and profit or loss		Change in price		Effect on net assets attributable to unitholders and	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
%	%	\$'000	\$'000	%	%	\$'000	\$'000	
Market Index								
Composite	10	(5)	1,586	(783)	9	(4)	1,760	(782)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Schemes' financial instruments will fluctuate as a result of changes in market interest rates.

The Responsible Entity establishes interest rate management strategies to manage the risk of the Schemes. This includes managing exposures around the benchmark and hedging exposures through the use of derivatives.

In accordance with the Scheme's policy, the Responsible Entity via the Investment Manager monitors the Scheme's overall interest sensitivity position on a daily basis.

Interest rate risk is not considered to be significant to the Schemes except in relation to investments in interest bearing securities. The Schemes do not have any investments in interest bearing securities at 30 June 2020 and 30 June 2019. However, the Schemes do hold cash for liquidity and transactional purposes and this cash is held at floating rates of interest. As a result, the Schemes are not subject to a material exposure to interest rate risks due to fluctuations in the levels of market interest rates.

MOSAIC DIVERSIFIED FUNDS
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Note 12: Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Cash and cash equivalents

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash at bank	566	484	511	201	276	285
	<u>566</u>	<u>484</u>	<u>511</u>	<u>201</u>	<u>276</u>	<u>285</u>

(b) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit/loss for the year	(2,103)	2,833	(2,530)	3,972	(282)	938
Net (gains)/losses on financial instruments held at fair value through profit or loss	2,925	(1,742)	3,643	(2,401)	509	(493)
Proceeds from the sale of financial instruments held at fair value through profit or loss	9,676	8,773	9,719	14,745	3,957	6,109
Payments for the purchase of financial instruments held at fair value through profit or loss	(2,220)	(5,783)	(2,132)	(5,572)	(331)	(1,874)
Investment income re-invested	(1,087)	(2,458)	(1,594)	(3,159)	(439)	(722)
Changes in assets and liabilities:						
Decrease/(increase) in receivables	171	1,272	330	1,432	164	223
Increase/(decrease) in payables	-	-	-	(2)	(2)	(1)
Net cash inflow/(outflow) from operating activities	<u>7,362</u>	<u>2,894</u>	<u>7,436</u>	<u>9,015</u>	<u>3,576</u>	<u>4,180</u>

(c) Non-cash financing and operating activities

Distributions re-invested	9	19	1	2	-	-
Participation in reinvestment plans	1,087	2,458	1,594	3,159	439	722
Proceeds from application for units	92	89	30	-	-	-
Payments for redemption of units	(92)	(89)	(30)	-	-	-
	<u>1,096</u>	<u>2,477</u>	<u>1,595</u>	<u>3,161</u>	<u>439</u>	<u>722</u>

Non-distributable income is included in net assets attributable to unitholders. The change in this amount each year (as reported in (b) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (i.e. taxable).

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Note 13: Auditor's remuneration

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$	\$	\$	\$	\$	\$
(a) Audit services						
Audit and review of financial reports	8,142	8,142	8,142	8,142	8,142	8,142
Other regulatory audit services	2,626	2,626	2,626	2,626	2,626	2,626
Total remuneration for audit services	<u>10,768</u>	<u>10,768</u>	<u>10,768</u>	<u>10,768</u>	<u>10,768</u>	<u>10,768</u>

Auditor's remuneration is paid by the Responsible Entity.

Note 14: Events subsequent to reporting date

The existence of COVID-19 was confirmed in early 2020 and in March 2020 was declared a pandemic by the World Health Organisation. This has resulted in significant volatility in global and domestic financial markets. Refer to Note 11 for the sensitivity analysis of risks.

At the date of signing of the financial statements, there is still significant uncertainty on the likely duration and the ultimate impact COVID-19 will have on world economies. Given the high degree of estimation uncertainty, management cannot reasonably assess or quantify the potential short or longer term financial impact on the Scheme.

Except as disclosed above, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- (i) the operations of the Schemes in future financial years;
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Schemes in future financial years.

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Note 15: Contingent assets and liabilities and Capital commitments

There are no outstanding contingent assets, liabilities or capital commitments as at 30 June 2020 and 30 June 2019.

Note 16: Involvement with unconsolidated structured entities

Investments in unlisted unit trusts, which are considered unconsolidated structured entities, are disclosed in Note 5. The maximum exposure to loss in the unconsolidated structured entities is the fair value disclosed in the Note. The fair value of the exposure will change on a daily basis throughout the period and in subsequent periods and will cease once the investments are disposed of.

The investments of the Schemes are managed in accordance with the investment mandates with the respective underlying Investment Managers. The investment decisions of the Schemes are based on the analysis conducted by the Investment Manager. The returns of the Schemes are exposed to the variability of the performance of the underlying investment strategies. The underlying Investment Managers receive a management fee for undertaking the management of these investments.

As at 30 June 2020 and 30 June 2019, the Schemes have not imposed any significant restrictions (e.g. borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of any unconsolidated structured entity to transfer funds to the Schemes in the form of dividends or to repay loans or advances made to any unconsolidated structured entity by the Schemes.

As at 30 June 2020 and 30 June 2019, the Schemes do not have any current commitments or intentions to provide financial or other support to any unconsolidated structured entity, including commitments or intentions to assist the structured entity in obtaining financial support.